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Montana Board of Housing, report on audit of financial statements, June

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MONTANA BOARD OF HOUSING

REPORT ON AUDIT OF

FINANCIAL STATEMENTS

June 30, 1988

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MONTANA BOARD OF HOUSING

REPORT ON AUDIT OF

FINANCIAL STATEMENTS

June 30, 1988

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JUNKERMIER, CLARK, CAMPANELLA, STEVENS P.C.
Certified Public Accountants

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MONTANA BOARD OF HOUSING
CONTENTS

Transmittal letter from the Office of the Legislative Auditor	1
Listing of the Board members of the Montana Board of Housing and administrative officials	1
Introduction and background	1
Summary of audit recommendations and Montana Board of Housing responses	1
Accountants' letter on reportable conditions and other matters	1-5
Accountants' report and financial statements	1-25
Montana Board of Housing responses to audit recommendations	1-2

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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SCOTT A. SEACAT

LEGAL COUNSEL:
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DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

September 1988

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Board of Housing for the fiscal year ended June 30, 1988.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, PC, Certified Public Accountants under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Scott A. Seacat

Scott A. Seacat
Legislative Auditor

MONTANA BOARD OF HOUSING
BOARD MEMBERS AND ADMINISTRATIVE OFFICIALS
June 30, 1988

BOARD MEMBERS	RESIDENCE
Joan Bennett, Chairman	Great Falls
Bruce W. Moerer, Vice-Chairman	Helena
Brad Walterskirchen, Secretary	Great Falls
Michael J. Kennedy, Jr.	Billings
Howard Rosenleaf	Anaconda
George Swords, II	Billings
Mike McKee	Hamilton

ADMINISTRATIVE OFFICIALS

Richard Kain, Administrator

David Haviland, Single Family Program Officer

David Kraft, Controller

MONTANA BOARD OF HOUSING
INTRODUCTION AND BACKGROUND
June 30, 1988

INTRODUCTION

The purpose of our contract with the State and Board was to perform a financial-compliance audit of the Montana Board of Housing and issue an opinion on such. The scope of our services is defined in our contract with the Board and Office of Legislative Auditor, dated June 30, 1988 and as supplemented by certain requirements included in the bidder information.

As a result of our June 30, 1988 audit, we have issued a management letter which includes certain required comments per the contract.

BACKGROUND

The Montana Board of Housing was created by the Legislature of the State of Montana in 1975. The general purpose of the Board is to facilitate the financing of housing needs for families and individuals of lower income.

The Board is a quasi-judicial board and receives no funding from the State of Montana.

MONTANA BOARD OF HOUSING
June 30, 1988
SUMMARY OF RECOMMENDATIONS

RECOMMENDATION

We recommend the Board update multifamily service files for Fidelity Insurance and errors and omission coverage.

BOARD REPLY

Concur

RECOMMENDATION

We recommend expenses on interim financial statements be grouped as on the 1988 annual audited financial statements to more accurately reflect expenses by category when reported to the Board of Directors.

BOARD REPLY

Concur

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Members of the Board of Housing

In planning and performing our audit of the financial statements of Montana Board of Housing for the year ended June 30, 1988, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Montana Board of Housing's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted no weaknesses we consider to be material.

The following are reportable conditions that are not believed to be material weaknesses. Also, our conclusion concerning the Board's compliance with applicable state and federal statutes and regulations follows.

BOARD' COMPLIANCE WITH APPLICABLE STATE AND FEDERAL STATUTES AND REGULATIONS.

The results of our tests indicate the Board has complied with those provisions of applicable state and federal statutes and regulations, noncompliance with which could have a material effect on the Board's financial statements. Nothing came to our attention that caused us to believe that for the items not tested the Board was not in compliance with laws or regulations noncompliance with which could have a material effect on the Board's financial statements.

REQUIRED MULTIFAMILY SERVICER DOCUMENTS

We tested the multifamily servicer files for required documents per Board policies and found not all files have updated fidelity insurance or errors and omission coverage. We realize one reason for this is the unfilled multifamily officer position. We recommend the Board update multifamily service files as soon as possible.

INTERIM FINANCIAL REPORTS

We recommend expenses on interim financial reports be grouped as on the 1988 annual audited financial statements to more accurately reflect expenses by category when reported to the Board of Directors. Specifically the expenses we are referring to are general and administrative, foreclosure expenses and reimbursements and servicer fees. We have reclassified these expenses in the 1987 financial statements for comparative purposes only with the 1988 financial statements.

The following is a summary of the actions taken by the Board on recommendations on findings in the prior year report (June 30, 1987):

RECOMMENDATION:

It was recommended that the Board acquire a combination power purifier/backup power supply.

ACTION:

The Board has purchased the necessary power fluctuation protection, but believes that a backup power supply is not necessary considering the cost-benefit of such.

RECOMMENDATION:

The use of a computer log was recommended.

ACTION:

The Board has determined that a computer log can not be produced by the present software and believes that access to the system is presently sufficiently restricted against potential risk of not utilizing a counsel log.

RECOMMENDATION:

The creation of an internal audit function.

ACTION:

The Board concurs that the creation of an internal audit function would be a positive benefit to its operations. However, due to the staffing needs and the staffing limitations, the Board is currently unable to justify a full time internal audit function position. We discussed with the audit committee and management the possibility of using present staff to review transactions in which they are not directly involved. Management's opinion is that this type of review is currently being utilized as much as possible. Also, the audit committee is aware of the benefits of an internal audit function and will continue to address future possible suggestions.

RECOMMENDATION:

The Board of Housing establish a standing audit committee.

ACTION:

The Board has established a standing audit committee and it is currently functioning during the June 30, 1988 audit.

RECOMMENDATION:

A related party disclosure checklist be established for Board members and key staff. We also recommended the Board use a related party checklist for Board members and staff. This would document actual related party transactions, which would aid in the annual audit of the financial statements. Items documented would include both direct and indirect relationships involving dealings with the Board.

ACTION:

The Board and its counsel are of the opinion that MCS (2-2-101 through 2-2-132), a portion of which sets forth a code of ethics for Board members and state employees, adequately covers, identification of related party transactions. However, the Board has determined it will investigate the development of the recommended checklist

for Board and staff to see if sufficient benefits can be derived by using such a checklist in addition to the code of ethics.

The following are observations or other matters that have been discussed with the audit committee and management. They are presented in the report only for the information for members of the Board.

CASH ON HAND AT END OF YEAR

During our audit, we became aware of U.S. Treasury checks on loans in foreclosure that were received on or before June 30, 1988 and were not recorded on the books as of June 30, 1988. We made an audit adjustment entry only for the June 30, 1988 financial statements. These receipts were not recorded as of June 30, 1988 due to the Board's cut-off procedures for accounting processing. These receipts were recorded as of July, 1988, the same month received by the Trustee. We believe there are sufficient controls over these cash receipts for the Board to continue the existing monthly cut-off procedures. Management provided us with the necessary information concerning these receipts for the audit adjustment only entry and will continue to do so in the future.

ALLOWANCE FOR DOUBTFUL MORTGAGE LOANS RECEIVABLE

Government entities generally use an allowance for doubtful accounts for proprietary funds in which the direct write off method is materially different than an allowance method and the doubtful accounts are material in relation to the financial statements as a whole. The board currently uses the direct write-off method for uncollectible mortgage loans receivable, and interest receivable. Due to the FHA insurance or V.A. guarantee, the greatest area for potential loss has been the loss on uncollectible interest. The loss on uncollectible interest for 1988 has more than doubled that of 1987.

Also, with the increase in the acquisition of foreclosed V.A. homes, an additional potential loss exists above the V.A. guarantee. Given the above facts, we analyzed the need for an allowance for doubtful mortgage loans receivable. We concluded the potential loss from current mortgage loans receivable, loans in the foreclosure process, and foreclosed property would not be material in relation to the amount of total mortgage loans receivable outstanding as of June 30, 1988 or the excess revenue for the year ended June 30, 1988. Therefore, an allowance need not be set up in the 1988 financial statements. However, if the foreclosures and delinquent loans continue to increase during the 1988-1989 fiscal year as they did in the 1987-1988 fiscal year, an allowance may be appropriate for the June 30, 1989 financial statements. Management is continuing to monitor the delinquent and foreclosure loans to determine if an allowance is necessary for the June 30, 1989 financial statements.

MORTGAGE CREDIT CERTIFICATE PROGRAM

We sampled the mortgage credit certificates issued for compliance of federal regulations and the Board's issuance procedures. As mentioned earlier, we did not find any material non-compliance, however, we would like to emphasize the need for the lender to verify current annual family income and documentation of such. A federal income tax return should not be used in place of lender verification, since certain types of income, such as disability payments, are not reported on federal income tax returns. This observation is only for management information and does not warrant a specific recommendation or Board action since the above refers to only one specific instance, which was not material in relation to the total certificates tested.

CHANGE IN ACCOUNTING PRINCIPLE

A new statement of financial accounting standards covering accounting for nonrefundable fees and cost associated with acquiring loans has been issued and is applicable to the Montana Board of Housing. The statements is effective for fiscal years beginning after December 15, 1987 with prospective application. Retroactive application is encouraged but not required. We are currently working with the Board's management concerning the application of the new statement to the Board's financial statements.

We appreciate the opportunity to be of service to the Board of Housing. We would like to acknowledge and thank the Board's staff for the excellent cooperation we received during our examination. We look forward to being of service to the Board in the future.

This report is intended solely for the information and use of members of the Board of Housing, management, and others within the administration of the Montana Board of Housing.

Jankowiak, Clark, Campanella, Stevens, PC

Helena, Montana
September 16, 1988

MONTANA BOARD OF HOUSING

AUDITED FINANCIAL STATEMENTS

June 30, 1988

JUNKERMIER, CLARK, CAMPANELLA, STEVENS P.C.
Certified Public Accountants

MONTANA BOARD OF HOUSING
CONTENTS

AUDITED FINANCIAL STATEMENTS	PAGE
Accountants' report	3
Balance sheets	4-5
Statements of revenue, expense and changes in fund balances	6-7
Statements of changes in financial position	8-9
Notes to financial statements	10-25

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Board of Directors
Montana Board of Housing
Helena, Montana

We have audited the accompanying balance sheets of Montana Board of Housing as of June 30, 1988 and the related statements of revenue, expense and changes in fund balances, and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Montana Board of Housing as of June 30, 1987 were audited by other auditors whose report dated August 28, 1987, expressed an unqualified opinion on those statements. The 1987 financial statement totals were taken from those 1987 audited financial statements and are presented for comparative purposes only.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana Board of Housing as of June 30, 1988 and the results of its operations, and changes in financial position for the year then ended in conformity with generally accepted accounting principles.

Junkermier, Clark, Campanella, Stevens, PC

Helena, Montana
September 16, 1988

MONTANA BOARD OF HOUSING
BALANCE SHEETS
June 30, 1988

	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds
ASSETS		
ASSETS		
Cash and investments	$ 40,589,313	$102,487,007
Mortgage loans receivable	80,045,137	349,628,593
Interest receivable		
Mortgage loans receivable	597,172	4,173,973
Investments	397,754	1,957,441
Due from other funds	-	271,544
Fixed assets, net of accumulated depreciation of $76,227	-	-
Totals	$121,629,376	$458,518,558
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 82,328	$ 166,381
Accrued interest on bonds payable	1,773,827	2,898,552
Due to other funds	95,067	-
Bonds payable - net	106,431,428	422,158,593
	108,382,650	425,223,526
FUND BALANCES		
Reserved fund balances	13,246,726	33,295,032
Designated fund balances	-	-
	13,246,726	33,295,032
Totals	$121,629,376	$458,518,558

See the accompanying accountants' report and the notes, which are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
BALANCE SHEETS
June 30, 1988

Multifamily Mortgage Program Funds	Bondholder Reserve Funds	Financial Program Funds	Memorandum Only Combined Totals 1988	1987
$ 4,214,029	$ 1,401,889	$ 84,453	$148,776,691	$134,701,350
13,402,288	-	-	443,076,018	446,695,462
79,493	-	-	4,850,638	4,841,334
74,571	59,092	1,251	2,490,109	2,560,477
-	-	-	271,544	143,291
-	-	85,599	85,599	115,723
$ 17,770,381	$ 1,460,981	$ 171,303	$599,550,599	$589,057,637
$ -	$ -	$ 83,899	$ 332,608	$ 548,925
453,969	-	-	5,126,348	4,492,946
137,359	-	39,118	271,544	143,291
14,454,418	-	-	543,044,439	540,625,291
15,045,746	-	123,017	548,774,939	545,810,453
2,724,635	-	-	49,266,393	41,836,158
-	1,460,981	48,286	1,509,267	1,411,026
2,724,635	1,460,981	48,286	50,775,660	43,247,184
$ 17,770,381	$ 1,460,981	$ 171,303	$599,550,599	$589,057,637

See the accompanying accountants' report and the notes, which are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN FUND BALANCES
Year Ended June 30, 1988

	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds
REVENUE		
Interest income on mortgage loans receivable	$ 5,047,772	$ 35,917,642
Interest income on investments	2,414,890	10,009,391
Fees	517,576	237
Investment gain (loss)	516	2,946,651
Other revenue	-	-
	7,980,754	48,873,921
EXPENSE		
Interest	5,750,398	40,138,423
Servicer fees	249,684	1,373,664
Amortization of bond issuance cost	92,731	795,232
General and administrative	-	-
General and administrative allocation	216,986	588,653
	6,309,799	42,895,972
EXCESS REVENUE BEFORE EXTRAORDINARY ITEM	1,670,955	5,977,949
EXTRAORDINARY ITEM	-	(467,357)
EXCESS REVENUE	1,670,955	5,510,592
FUND BALANCES AT BEGINNING OF YEAR		
Reserved fund balances	11,575,771	27,784,440
Designated fund balances	-	-
FUND BALANCES AT END OF YEAR		
Reserved fund balances	$ 13,246,726	$ 33,295,032
Designated fund balances	-	-

See the accompanying accountants' report and the notes, which are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN FUND BALANCES
Year Ended June 30, 1988

Multifamily Mortgage Program Funds	Bondholder Reserve Funds	Financial Program Funds	Memorandum Only Combined Totals 1988	1987
$ 1,086,735	$ -	$ -	$ 42,052,149	$ 44,473,086
302,881	104,094	2,094	12,833,350	13,139,076
-	-	57,790	575,603	62,406
(203)	-	-	2,946,964	898,436
-	-	-	-	630
1,389,413	104,094	59,884	58,408,066	58,573,634
1,085,010	-	-	46,973,831	50,015,588
17,100	-	-	1,640,448	1,809,097
15,712	-	-	903,675	1,158,453
-	13,742	880,537	894,279	1,053,729
22,903	18,530	(847,072)	-	-
1,140,725	32,272	33,465	50,412,233	54,036,867
248,688	71,822	26,419	7,995,833	4,536,767
-	-	-	(467,357)	(1,404,143)
248,688	71,822	26,419	7,528,476	3,132,624
2,475,947	-	-	41,836,158	38,781,668
-	1,389,159	21,867	1,411,026	1,332,892
$ 2,724,635	$ -	$ -	$ 49,266,393	$ 41,836,158
-	1,460,981	48,286	1,509,267	1,411,026

See the accompanying accountants' report and the notes, which are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended June 30, 1988

	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds
SOURCES OF CASH AND INVESTMENTS		
Provided from operations:		
Excess revenue before extraordinary item	$ 1,670,955	$ 5,977,949
Add (deduct) non cash items:		
Amortization of bond premiums, discounts, issuance cost and mortgage discounts - net	108,596	3,889,470
Depreciation	-	-
(Increase) decrease in interest receivable:		
Mortgage loans receivable	(278,687)	258,027
Investments	(73,924)	190,044
Increase (decrease) in accounts payable	14,886	30,796
Increase (decrease) in accrued interest on bonds payable	913,687	(278,030)
(Increase) decrease in due from other funds	65,595	(271,544)
Increase (decrease) in due to other funds	95,067	(28,834)
Cash and investments provided (used) from operations before extraordinary item	2,516,175	9,767,878
Extraordinary item	-	(467,357)
Cash provided (used) from operations	2,516,175	9,300,521
Mortgage loan receivable payments:		
Scheduled	1,246,454	5,031,902
Prepaid	1,877,601	34,571,202
Proceeds from bond sales	39,961,543	-
	45,601,773	48,903,625
USES OF CASH AND INVESTMENTS		
Retirement of bonds	2,835,000	38,395,000
Purchase of mortgage loans receivable	36,746,390	1,801,060
Bond issuance cost paid	952,758	-
	40,534,148	40,196,060
Increase (decrease) in cash and investments	5,067,625	8,707,565
Cash and investments beginning of year	35,521,688	93,779,442
CASH AND INVESTMENTS END OF YEAR	$ 40,589,313	$102,487,007

See the accompanying accountants' report and the notes, which are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended June 30, 1988

Multifamily Mortgage Program Funds	Bondholder Reserve Funds	Financial Program Funds	Memorandum Only Combined Totals 1988	Memorandum Only Combined Totals 1987
$ 248,688	$ 71,822	$ 26,419	$ 7,995,833	$ 4,536,767
13,942	-	-	4,012,008	5,080,046
-	-	30,123	30,123	30,898
11,356	-	-	(9,304)	(128,762)
6,427	(51,084)	(1,093)	70,370	1,990,788
-	-	(179,917)	(134,235)	184,300
(2,255)	-	-	633,402	(3,280,796)
-	-	77,696	(128,253)	217,417
22,902	-	39,118	128,253	(217,417)
301,060	20,738	(7,654)	12,598,197	8,413,241
-	-	-	(467,357)	(1,404,143)
301,060	20,738	(7,654)	12,130,840	7,009,098
91,007	-	-	6,369,363	6,181,028
-	-	-	36,448,803	46,891,729
-	-	-	39,961,543	19,965,218
392,067	20,738	(7,654)	94,910,549	80,047,073
105,000	-	-	41,335,000	170,029,023
-	-	-	38,547,450	13,057,464
-	-	-	952,758	671,158
105,000	-	-	80,835,208	183,757,645
287,067	20,738	(7,654)	14,075,341	(103,710,572)
3,926,962	1,381,151	92,107	134,701,350	238,411,922
$ 4,214,029	$ 1,401,889	$ 84,453	$148,776,691	$134,701,350

See the accompanying accountants' report and the notes, which are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
NOTES TO FINANCIAL STATEMENTS
June 30, 1988

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Montana Board of Housing is a quasi-judicial board created in 1975 by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any one time may not exceed $975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged to the payment of amounts so issued. The Board of Housing is attached to the Department of Commerce for administrative purposes.

Basis of Accounting:

The Board utilizes the accrual basis of accounting wherein revenue is recognized when earned and expense when incurred.

Fund Accounting:

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the accompanying financial statements are presented in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund balance, revenue and expense. The Board's funds are classified as proprietary funds, that is, funds that are financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expense incurred as appropriate for capital maintenance, public policy, management control, accountability and other purposes. Reserved fund balances represent bond program funds that must be used for program purposes as prescribed by individual program indentures. Designated fund balances represent funds that are reserved to enhance bondholder security and provide for continuing operations as prescribed by the Montana Board of Housing. The following is a description of the Board's individual funds:

SINGLE FAMILY I MORTGAGE PROGRAM FUNDS;

These funds, established under a trust indenture adopted March 10, 1977, and amended July 28, 1977, June 13, 1978, June 1, 1987, September 1, 1987 and April 1, 1988, are prescribed for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued):

restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by the Veterans Administration.

SINGLE FAMILY II MORTGAGE PROGRAM FUNDS;

These funds, established under a trust indenture adopted August 16, 1979, and amended April 20, 1980, April 6, 1982, February 10, 1983, April 8, 1983, November 4, 1983, August 24, 1984, August 1, 1985, November 1, 1985, and December 6, 1985 are prescribed for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by the Veterans Administration.

MULTIFAMILY MORTGAGE PROGRAM FUNDS;

These funds, established under a trust indenture adopted February 23, 1978 and amended June 26, 1979 and May 27, 1982, are prescribed for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for the construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans must be insured by the Federal Housing Administration.

BONDHOLDER RESERVE FUNDS;

The bondholder reserve funds are designated funds transferred from the financial program funds and, established as a separate fund by a resolution of the Montana Board of Housing, adopted June 11, 1987. The bondholder reserve fund was created in order to provide for enhanced bondholder security. Uses are restricted to Single Family I Program purposes or other uses as determined by the Montana Board of Housing.

FINANCIAL PROGRAM FUNDS;

The financial program funds are designated funds established by a resolution of the Montana Board of Housing adopted August 14, 1981. The financial program funds are restricted to program purposes as determined by the Montana Board of Housing and the funds collateralize general obligations of the Board. The financial program funds are generally used for general and administrative operating expenses of the Board's programs. These general and administrative operating expenses are then allocated to the specific program funds based upon direct expenses. The indirect expenses are allocated based upon the relationship that direct expenses bear to total direct expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued):
MEMORANDUM ONLY COMBINED TOTALS;

The "Memorandum Only Combined Totals" columns contain the totals of the similar accounts of all funds of the Board. Since the assets of certain funds are restricted by trust indentures, the totals are for convenience only and do not indicate that the combined assets are available in any manner other than provided for in the trust indentures or as designated by Board resolutions. The totals for 1987 are for comparative purposes only.

Cash and Investments:
The Board's bond trust indentures restrict investment obligations to any of the following, which at the time are legal investments for fiduciaries under the laws of the State of Montana:

U.S. Treasury, U. S. agencies, direct obligations of the State or any political subdivision of the State rated in either of its two highest rating categories by a nationally recognized bond rating agency, public bonds and notes fully secured as to payment of principal and interest by a payment agreement with the United States of America, repurchase agreements with U.S. Treasury or U.S. agency obligations as the underlying securities, and certificates of deposit with Federal Reserve System member banks or any Federal Savings and Loan Insurance Corporation member savings and loan association with U.S. Treasury or U.S. agency obligations as collateral to the extent not insured.

Investments, which are generally intended to be held to maturity, are reported at amortized cost. Investment premiums or discounts of $1,000 or more are amortized using the straight-line method.

Mortgage Loans Receivable:
Permanent mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts. Mortgage discounts are amortized over the remaining life of the mortgage loans and accreted to interest income on mortgages.

Foreclosed property represents the uncollected principal balance of foreclosed loans, net of insurance/guaranty payments applied to the principal and real property conveyed to the Board as part of the insurance/guaranty settlement. Foreclosed property, net of insurance/guaranty payments, is included in mortgage loans receivable.

The Board uses the direct write off method for uncollectible mortgage loans receivable balances and uncollectible interest receivables.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Receivable - Mortgage Loans and Foreclosed Property:

Interest is accrued based upon the amount of outstanding mortgage loan principal. Not more than six (6) months interest is accrued or recognized as income on loans in arrears or under some phase of liquidation.

Interest accrues on foreclosed property from the last interest "paid to" date to the date of the first insurance/guaranty proceeds check. Interest receivable is carried net of insurance/guaranty proceeds collected and applied to interest receivable.

Servicer Fees:

The Board incurs mortgage loan service fees with participating loan servicers. The service fees are based upon individual outstanding monthly mortgage loan principal balances, and paid only when the mortgagor's full monthly payment is collected.

Fixed Assets:

Fixed assets are recorded at cost and depreciation is computed using the straight-line basis over estimated useful lives of 3 to 10 years. The majority of the fixed assets consists of computers and software.

Fee Income:

Fees collected as reimbursement for costs incurred in developing and implementing the programs of the Board and for other specific services are recorded as income in the period received. Reservation fees collected in connection with single family mortgages are recorded as income in the period received. Commitment fees collected in connection with multifamily mortgages are deferred until the end of the respective construction period.

Amortization of Bond Premiums and Discounts:

Bond premiums and discounts are being amortized or accreted to interest expense, using the interest method, over the life of the bonds to which they relate.

Accretion of Capital Appreciation Bonds (CAB):

CABs are reported at accreted value using the compounded value as set forth in the supplemental trust indenture, over the life of the bonds. The accreted amount is reported as interest expense on bonds.

Accretion of Postponed Revenue on Future Income Tax Exempt Securities Bonds (PROFITS):

PROFIT bonds are reported at accreted value using the compounded value until the bonds reach face value at which time they convert to coupon bonds as set forth in the supplemental trust indenture. The accreted amount is reported as interest expense on bonds.

Amortization of Bond Issuance Cost:

Bond issuance cost, including underwriter discounts, are being amortized using the bonds outstanding method over the life of the bonds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bonds Payable - Net:

Bonds payable are reported at net of unpaid principal outstanding, adjusted for unamortized bond premiums, discounts and issuance cost.

2. CASH AND INVESTMENTS

At June 30, 1988, the Board had deposits of $3,733,606 of which $2,968,533 were insured by FDIC. Trustees and co-trustees held collateral for the balance. The following discloses the deposits within funds:

FUND	TOTAL	FDIC INSURED	COLLATERALIZED
Single Family I Program Funds	$ 700,945	$ 700,945	$ -
Single Family II Program Funds	2,352,288	2,246,072	106,216
Multifamily Program Funds	679,072	20,215	658,857
Bondholder Reserve Program Funds	450	450	-
Financial Program Funds	851	851	-
Totals	$3,733,606	$2,968,533	$ 765,073

The Board's investments at June 30, 1988, consisted of uninsured and unregistered investments which were held by the trustees in the Board's name as follows:

	Carrying Amount	Market Value
U.S. Treasury	$ 79,589,548	$ 85,428,775
U.S. Agency	64,918,642	64,759,223
Total investments	$144,508,190	$150,187,998

In addition to the above cash and investments, the Board had $479,267 cash on hand, representing U.S. Treasury checks in transit to a trustee, and $55,628 on deposit with the State Treasurer in the Financial Program Funds.

Portions of cash and investments are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

	June 30, 1988		
	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds	Multifamily Mortgage Program Funds
Debt service reserve	$ 9,442,600	$ 49,998,278	$ 1,150,000
Mortgage reserve	1,181,580	3,837,962	275,840
Totals	$ 10,624,180	$ 53,836,240	$ 1,425,840

	June 30, 1987 (Memorandum Only)		
	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds	Multifamily Mortgage Program Funds
Debt service reserve	$ 7,540,000	$ 50,263,697	$ 1,150,000
Mortgage reserve	810,100	4,264,686	275,840
Totals	$ 8,350,100	$ 54,528,383	$ 1,425,840

3. MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consist of the following:

	1988	1987 (Memorandum Only)
Single Family I Program:		
Mortgage loans receivable with fixed payments of principal and interest ranging from 6.875% to 9.125%, original terms ranging from 25 - 30 years, FHA insured or V.A. guaranteed.	$ 80,420,826	$ 46,393,554
Unamortized mortgage discounts	(375,689)	-
Foreclosed property - net	-	25,036
	$ 80,045,137	$ 46,418,590
Single Family II Program:		
Mortgage loans receivable with fixed payments of principal and interest ranging from 7.75% to 12.5%, original terms ranging from 25 - 30 years, FHA insured or V.A. guaranteed.	$353,354,448	$391,606,520
Unamortized mortgage discounts	(4,473,657)	(5,117,909)
Foreclosed property - net	747,802	295,111
	$349,628,593	$386,783,722
Multifamily Program:		
Mortgage loans receivable with fixed payments of principal and interest ranging from 7% to 12%,40 year terms, FHA insured.	$ 13,482,670	$ 13,573,677
Unamortized mortgage discounts	(80,382)	(80,527)
	13,402,288	13,493,150
Memorandum only combined totals	$443,076,018	$446,695,462

4. BONDS PAYABLE - NET

Bonds payable - net consists of the following:

Single Family I Mortgage Bonds:

1977 Series A, 4.5% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1992 and on October 1, 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1993 and to optional redemption after various dates at prices ranging from 100 to 103.

1977 Series B, 4.15% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1992 and on October 1, 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1993 and to optional redemption after various dates at prices ranging from 100 to 103.

1978 Series A, 5.05% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1997 and on October 1, 2003 and October 1, 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1998 and to optional redemption after various dates at prices ranging from 100 to 103.

1987 Series A, 5.3% to 8.625% interest, maturing in scheduled annual installments from April 1, 1988 to April 1, 2000 and on April 1, 2018, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2001, to optional redemption after various dates at prices ranging from 100 to 102 and special optional redemption.

1987 Series B-1 and B-2, serial and term bonds, 6.25% to 9% interest, maturing in scheduled annual installments from April 1, 1989 to April 1, 2002 and on April 1, 2007, April 1, 2014, April 1, 2029, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2003, to optional redemption after various dates at prices ranging from 100 to 102 and special optional redemptions.

1988 Series A-1 and A-2 serial, term and Postponed Revenue on Future Income Tax Exempt Securities (PROFITS), 5.4% to 8.5% interest, maturing in scheduled annual installments from April 1, 1990 to April 1, 2003 and on April 1, 2012, April 1, 2027, April 1, 2019, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2004, to optional redemption after various dates at prices ranging from 100 to 102 and special optional redemptions. PROFITS are reported at an accreted value.

Original Amount	June 30 1988	1987 (Memorandum Only)
$ 21,470,000	$ 14,685,000	$ 15,475,000
35,060,000	24,445,000	25,735,000
13,600,000	9,735,000	10,210,000
20,000,000	19,720,000	20,000,000
20,000,000	20,000,000	-
19,998,793	20,015,959	-

4. BONDS PAYABLE - NET (Continued)

Single Family I Mortgage Bonds (Continued):

Total bonds outstanding

Unamortized bond discount and issuance cost

Total bonds payable - net

Single Family II Mortgage Bonds:

1979 Series A, 5.1% to 6.6% interest, maturing in scheduled annual installments from June 1, 1981 to June 1, 1997, and on June 1, 2000 and June 1, 2011, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1998 and to optional redemption after various dates at prices ranging from 100 to 102½.

1980 Series A, 7.7% to 9% interest, maturing in scheduled annual installments from June 1, 1982 to June 1, 2000, and on June 1, 2012, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2001 and to optional redemption after various dates at prices ranging from 100 to 103.

1982 Series A, 8.5% to 13.5% interest, maturing in scheduled annual installments from June 1, 1984 to June 1, 1996, and on June 1, 2002 and 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1997 and to optional redemption after various dates at prices ranging from 100 to 103.

1983 Series A, 5.25% to 9.875% interest, maturing in scheduled annual installments from June 1, 1984 to June 1, 1998, and on June 1, 2003 and 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1999 and to optional redemption after various dates at prices ranging from 100 to 103.

1983 Series B, 8% to 9.625% interest, maturing in scheduled annual installments from June 1, 1991 to June 1, 1996, and on June 1, 2003 and 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1997 and to optional redemption after various dates at prices ranging from 100 to 103.

Original Amount	June 30 1988	June 30 1987 (Memorandum Only)
	$108,600,959	$ 71,420,000
	(2,169,531)	(1,357,248)
	$106,431,428	$ 70,062,752
$100,000,000	$ 79,370,000	$ 83,645,000
50,000,000	39,195,000	41,105,000
55,000,000	10,915,000	13,200,000
30,000,000	22,670,000	24,200,000
55,000,000	45,785,000	49,195,000

4. BONDS PAYABLE - NET (Continued)

Single Family II Mortgage Bonds (Continued):

1983 Series C, serial, term and Capital Appreciation Bonds (CAB) 5.75% to 10.7% interest, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1997 and to optional redemption after various dates at prices ranging from 100 to 103. Serial and term bonds mature in scheduled semi-annual installments from June 1, 1984 to December 1, 2002. CABs are reported at an accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 2003 to June 1, 2010.

1984 Series A, serial, term and CABs, 7% to 10.375% interest, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1999 and to optional redemption after various dates at prices ranging from 100 to 103. Serial and term bonds mature in scheduled annual installments from June 1, 1986 to June 1, 2004. CAB are reported at an accreted value, and are scheduled for redemption, in part, in annual installments commencing June 1, 2005 to June 1, 2010.

1985 Series A, serial, term, CAB and Postponed Revenue on Future Income Tax - Exempt Securities (PROFITS) 5.5% to 9.75% interest, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1999 and to optional redemption after various dates at prices ranging from 100 to 102. Serial and term bonds mature in scheduled semi-annual installments from December 1, 1986 to December 1, 1998, June 1, 2005 to June 1, 2010, and December 1, 2013 to June 1, 2015. CABs are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments commencing June 1, 1999 to December 1, 2004 and December 1, 2015 to June 1, 2016. PROFITS are reported at accreted value, and begin to pay interest semi-annually, scheduled for redemption, in part, in semi-annual installments commencing December 1, 2010 to June 1, 2013.

1985 Series B, serial, term, CAB and Postponed Revenue on Future Income Tax - Exempt Securities (PROFITS) 5.7% to 9.75% interest, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2003 and to optional redemption after various dates at prices ranging from 100 to 102. Serial and term bonds mature in scheduled semi-annual installments from June 1, 1987 to December 1, 1995, June 1, 2003 to June 1, 2011, and June 1, 2014 to June 1, 2017. CAB bonds are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments commencing June 1, 1996 to December 1, 2002. PROFITS are reported at accreted value, and begin to pay interest semi-annually on June 1, 1997 and are subject to mandatory redemption commencing December 1, 2011 to December 1, 2013.

Original Amount	June 30 1988	1987 (Memorandum Only)
$114,998,229	$ 88,949,051	$103,092,381
75,002,290	65,741,856	69,879,298
39,999,625	37,665,877	39,327,793
74,996,862	39,750,761	41,565,310

4. BONDS PAYABLE - NET (Continued)

Single Family II Mortgage Bonds (Continued):

Total bonds outstanding

Unamortized bond discounts and issuance costs

Total bonds payable - net

Multifamily Mortgage Bonds:

1978 Series A, 6.125%, interest, maturing August 1, 2019, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1980 and to optional redemption after various dates at prices ranging from 103 to 105.

1979 Series A, 5.4% to 6.875% interest, maturing in scheduled annual installments from August 1, 1980 to August 1, 1999 and on August 1, 2021, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2000 and to optional redemption after various dates at prices ranging from 100 to 103.

1982 Series A. 12.75% interest, maturing August 1, 2023, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1986 and to optional redemption after various dates at prices ranging from 100 to 103.

Total Bonds outstanding

Unamortized bond premiums

Unamortized bond discounts and issuance costs

Total bonds payable - net

Memorandum only combined total bonds payable - net:

The following is a summary of bond principal requirements as of June 30, 1988:

Years ending June 30
1989
1990
1991
1992
1993
Subsequent years
Totals

Original Amount	June 30 1988	June 30 1987 (Memorandum Only)
	$430,042,545	$465,209,782
	(7,883,952)	(9,192,574)
	$422,158,593	$456,017,208
$ 4,865,000	$ 4,640,000	$ 4,675,000
8,660,000	8,200,000	8,265,000
1,945,000	1,935,000	1,940,000
	14,775,000	14,880,000
	69,239	71,454
	(389,821)	(406,123)
	$ 14,454,418	$ 14,545,331
	$543,044,439	$540,625,291

Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds	Multifamily Mortgage Program Funds
$ 2,950,000	$ 14,815,000	$ 115,000
2,875,000	14,665,000	120,000
2,940,000	15,640,000	125,000
3,005,000	15,075,000	130,000
2,870,000	16,240,000	140,000
93,960,959	353,607,545	14,145,000
$108,600,959	$ 430,042,545	$ 14,775,000

5. EXTRAORDINARY ITEM

During year ended June 30, 1988, the Board redeemed Single Family II mortgage bonds prior to scheduled maturity as follows:

Date	Amount
October 1, 1987	$10,460,000
December 1, 1987	3,205,000
June 1, 1988	10,585,000
Total	$24,250,000

All such bonds were redeemed at par or 100% of their compounded value to the date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as an extraordinary item in the financial statements.

6. COMMITMENTS

The Board leases office space at $2,225 per month. The term of the lease is July 1, 1987 through June 30, 1989. Minimum future lease commitments as of June 30, 1988 are as follows:

Year ended June 30, 1989	$26,700

In November 1986, the Board passed a resolution directing staff to utilize Single Family II mortgage prepayments to call outstanding bonds. It is anticipated that future calls will be made on a recurring basis.

The Board had committed to acquire or had reserved funds to purchase single family mortgages as of June 30, 1988 of $15,024,459.

7. BAD DEBTS

The Board wrote off uncollectible mortgage loan interest and principal in the amount of $13,780 for Single Family I program funds and $447,995 for Single Family II program funds for the year ended June 30, 1988.

8. RECLASSIFICATION OF FINANCIAL STATEMENTS

Certain items in the June 30, 1987 combined total column, shown for comparative purposes only, have been reclassified for comparative purposes with the 1988 combined total column. The reclassifications have no effect on the total 1987 fund balances.

9. ADMINISTRATIVE EXPENSE

The Board incurred administrative expense with the Department of Commerce of $24,801 for the year ended June 30, 1988.

10. RETIREMENT PLAN

The Board and its employees make contributions to the Montana Public Employees Retirement System (PERS) defined benefit plan. The Board is required to contribute for full time employees at the rate of 6.417% of annual compensation under State statute. Employees are required to contribute 6% of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The total number of Board employees covered during the year ended June 30, 1988 was 12. The total payroll for these employees was $253,888 in 1988. The Board's contributions were $16,312 and $18,940 for the years ended June 30, 1988 and 1987. The Board is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total State basis, not agency basis.

11. INTEREST EXPENSE

Interest on bonds is comprised of the following:

	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds	Multifamily Mortgage Program Funds
Interest incurred	$ 5,730,321	$ 36,872,625	$ 1,086,636
Amortization of bond discounts and premiums and accretion of CABs and PROFIT bonds - net	20,077	3,265,798	(1,626)
Totals	$ 5,750,398	$ 40,138,423	$ 1,085,010

Amortization of bond discount in the amount of $16,564 was expensed as an extraordinary item and is not in the totals above.

12. CONDUIT FINANCING

Under an Indenture of Trust dated October 1, 1985, the Board issued its "Montana Board of Housing Multifamily Housing Revenue Bonds (Cowdrey Project)" in the principal amount of $800,000. In this transaction, the Board acted only as a conduit and the bonds are not general obligations of the Board, but are payable solely from project funds held thereunder. As these bonds are not an obligation of the Board, they are not reflected in the accompanying financial statements.

MONTANA BOARD OF HOUSING

TED SCHWINDEN, GOVERNOR

2001 ELEVENTH AVENUE

STATE OF MONTANA

(406) 444-3040

HELENA, MONTANA 59620-0528

September 27, 1988

Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

Dear Mr. Seacat:

The Montana Board of Housing has received and reviewed the financial report as of June 30, 1988, and the accompanying management letter, which were submitted by the firm of Junkermier, Clark, Campanella, Stevens, P.C., Certified Public Accountants.

As provided for in the contract with the firm, a response to its recommendations and/or findings is requested.

Attached is a Summary of Recommendations with the Board's reply.

Sincerely,

Richard A. Kain
Administrator

RAK/jb

Enclosure

AN EQUAL OPPORTUNITY EMPLOYER

MONTANA BOARD OF HOUSING
June 30, 1988
SUMMARY OF RECOMMENDATIONS

RECOMMENDATION

We recommend the Board update multifamily servicer files for Fidelity Insurance and errors and omission coverage.

BOARD REPLY

Concur.

The Board will immediately begin the process of updating the multifamily servicer files.

RECOMMENDATION

We recommend expenses on interim financial statements be grouped as on the 1988 annual audited financial statements to more accurately reflect expenses by category when reported to the Board of Directors.

BOARD REPLY

Concur.

The Board has regrouped expenses on interim financial statements to correspond with the 1988 annual audited financial statements.